

Naval Postgraduate School  
Department of National Security Affairs  
Economic Intelligence

Winter Quarter 2000  
NS 4141  
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## Course Outline

### Texts:

Robert Hall and John Taylor, **Macro Economics, Fifth Edition**, Norton, 1997

John Fialka, **War by Other Means: Economic Espionage in America, 1997**

G. Hufbauer, J. Schott and K. Elliott, **Economic Sanctions Reconsidered: History and Current Policy**, second edition (Washington: Institute for International Economics, 1990).

G. Hufbauer, J. Schott and K. Elliott, **Economic Sanctions Reconsidered: Supplemental Case Histories** (Washington: Institute for International Economics, 1990).

### Supplemental Texts:

Alan J. Auerbach and Laurence J. Kotlikoff, **Macroeconomics: An Integrated Approach** (South-Western College Publishing, 1995).

Wayne Sandholtz et al., **The Highest States: The Economic Foundations of the Next Security System** (New York: Oxford University Press, 1992).

Robert Looney, **Third World Military Expenditures and Arms Production** (London: Macmillan, 1988).

Neil Richardson, **Foreign Policy and Economic Dependence** (Austin: University of Texas Press, 1978).

Gordon McCormick and Richard E. Bissell, **Strategic Dimensions of Economic Behavior** (Praeger Publishers, 1984).

Philip Hanson, **Western Economic Statecraft in East-West Relations: Embargoes, Sanctions, Linkage, Economic Warfare and Détente** (London: Routledge & Kegan Paul, 1988).

Richards Heuer, **Quantitative Approaches to Political Intelligence: The CIA Experience** (Boulder, Colorado: Westview Press, 1978).

Matin Libicki, **What Makes Industries Strategic** (Washington: Institute for National Strategic Studies, 1989).

Charles Wolf et. al., **Long-Term Economic and Military Trends, 1950-2010** (Santa Monica: Rand Corporation, 1989).

Klaus Knorr and Frank Trager, **Economic Issues and National Security** (Lawrence, Kansas: Regents Press of Kansas, 1977).

Sidney Weintraub ed., **Economic Coercion and U.S. Foreign Policy: Implications of Case Studies from the Johnson Administration** (Boulder, Colorado: Westview Press, 1982).

William Kaempfer and Anton Lowenberg, **International Economic Sanctions: A Public Choice Perspective** (Boulder, Colorado: Westview Press, 1992).

James Tritten, **Non-Traditional Forms of Intelligence** (Monterey: Naval Postgraduate School, 1993).

Reinhard Rode and Hanns D. Jacobvson, **Economic Warfare or Détente** (Boulder, Colorado: Westview Press, 1985).

Klaus Heiss, Klaus Knorr and Oskar Morgenstern, **Long Term Projections of Power** (Cambridge, Mass: Ballinger Publishing Company, 1973).

Randall Fort, **Economic Espionage: Problems and Prospects** (Washington: Consortium for the Study of Intelligence, 1993).

Richard Ellings, **Embargoes and World Power: Lessons from American Foreign Policy** (Boulder, Colorado: Westview Press, 1985).

M.S. Daoudi and M.S. Dajani, **Economic Diplomacy: Embargo Leverage and World Politics** (Boulder Colorado: Westview Press, 1985).

Michael Brzoska and Thomas Ohlson, **Arms Production in the Third World** (London: Taylor and Francis, 1986).

Kenneth Kessel, **Strategic Materials: U.S. Alternatives** (Washington: National Defense University Press, 1990).

Albert O. Hirschman, **National Power and the Structure of Foreign Trade** (Berkeley: University of California, 1969).

Daniel Todd, **Defense Industries: A Global Perspective** (London: Routledge, 1988).

Joseph Longo, **Methodology Catalog: An Aid to Intelligence Analysts and Forecasters** (Washington: DIA, 1983).

**The DRI/McGraw-Hill Encyclopedia of World Economies** (New York: McGraw-Hill, 1994).

Daniel Green, **Monitoring Technology Proliferation: An Open Source Methodology for Generating Proliferation Intelligence** (Monterey: Naval Postgraduate School, 1993).

### **Overview**

The focus and content of economic intelligence is continually changing. Based on past classes and feedback from students it is apparent that instruction should provide a basic understanding of macroeconomics, an introduction to a number of analytical techniques, a basic familiarity with the general literature in the area and experience in data gathering and analysis. As such the first part of the course will focus on macroeconomics, country analysis and forecasting. Along the way a number of relevant quantitative techniques will be examined and discussed. With this background we will start looking at some on-going research – the economics of Naval Forward Presence. The latter part of the course will focus on a series of issues involving various aspects of economic intelligence—vulnerability assessment, sanctions and projections of economic power and capabilities.

### **Assignments:**

#### **Introduction – Class Overview (January 11)**

#### **Macroeconomic Overview (January 13)**

Overview (Hall and Taylor, Introduction)  
Economic Growth and Fluctuations (Hall and Taylor, Chapter 1)  
Measuring Economic Performance (Hall and Taylor, Chapter 2, Auerbach, Chapter 5)

#### **Long Run Fundamentals (January 18)**

Economic Growth (Hall and Taylor, Chapter 3)  
Fiscal and Monetary Policy in Growth Context (Hall and Taylor, Chapter 4)  
Charles Wolf et. al., Long-Term Economic and Military Trends, 1950-2010 (Santa Monica: Rand Corporation, 1989).

#### **Economic Fluctuations I (January 20)**

Unemployment (Hall and Taylor, Chapter 5)  
Short-Run Fluctuations (Hall and Taylor, Chapter 6)

#### **Student Briefings—Aspects of Economic Intelligence**

Jeffrey Wright, "Intelligence and Economic Security" International Journal of Intelligence and CounterIntelligence (Summer 1991)

Simon Dalby "Security, Intelligence, the National Interest and the Global Environment" Intelligence and National Security (October 1995).

Samuel Porteous, "Looking Out for Economic Interests: An Increased Role for Intelligence" *The Washington Quarterly* (Autumn 1996).

Philip Zelikow, "American Economic Intelligence: Past Practice and Future Principles" *Intelligence and National Security* (January 1997).

### **Economic Fluctuations II (January 25)**

Financial Markets (Hall and Taylor, Chapter 7)

Adjustment and Policy (Hall and Taylor, Chapter 8 )

#### Student Briefings—Issues Concerning Economic Intelligence

Stanley Kober "Why Spy? The Uses and Misuses of Intelligence" *Cato Policy Analysis* No. 265 (December 12, 1996).

Kristen Michal, "Business Counterintelligence and the Role of the U.S. Intelligence Community," *International Journal of Intelligence and Counterintelligence* (Winter 1994).

Garth Hancock, "US Economic Intelligence Policy and Global Competition".

Samuel D. Porteous, "Economic/Commercial Interests and the World's Intelligence Services: A Canadian Perspective" *International Journal of Intelligence and CounterIntelligence* (Fall 1995).

### **Microfoundations of Macroeconomics I (January 27)**

Macroeconomic Policy (Hall and Taylor, Chapter 9)

Consumption (Hall and Taylor, Chapter 10)

### **Microfoundations of Macroeconomics II (February 1)**

Investment (Hall and Taylor, Chapter 11)

Foreign Trade and the Exchange Rate (Hall and Taylor, chapter 12)

#### Student Briefings—Aspects of The International Economy

John Matthews "Current Gains and Future Outcomes: When Cumulative Relative Gains Matter," *International Security* (Summer 1996).

Dale Copeland, "Economic Interdependence and War: A Theory of Trade Expectations," *International Security* (Spring 1996)

Daniel Drezner, "Review Essay: The Resurgent Nation-State" *The Washington Quarterly* (Winter 1998)

Edward Luttwak, "The Coming Global War for Economic Power," *The International Economy* (September/October 1993).

### **Microfoundations of Macroeconomics III (February 3)**

Spending, Taxes and the Budget Deficit (Hall and Taylor Chapter 13)  
The Monetary System (Hall and Taylor, Chapter 14)

### **Macroeconomic Policy I (February 8)**

Microfoundations of Price Rigidity (Hall and Taylor, Chapter 15)  
Inflation and Output Fluctuations (Hall and Taylor, Chapter 16)

#### Student Briefings

Jonathan Lewis, "National Security and Capital Markets," International Journal of Intelligence and Counterintelligence (Winter 1993).

Robert Steele, "Private Enterprise Intelligence: Its Potential Contribution to National Security" Intelligence and National Security (October 1995)

### **Macroeconomic Policy II (February 10)**

Designing Macroeconomic Policy (Hall and Taylor, Chapter 17)  
The World Economy (Hall and Taylor, Chapter 18)  
Jeffrey Sachs and Andrew Warner, "Economic Reform and the Process of Global Integration" Brookings Papers on Economic Activity (1995)

#### Student Briefings

ONI Studies on Shipping and Strategic Sea Lanes

### **Economic Espionage (February 15, 17)**

#### Student Briefings

Peter Schweizer, "The Growth of Economic Espionage," Foreign Affairs (January/February 1996).

John Fialka, **War by Other Means: Economic Espionage in America**

John Fialka, "Stealing the Spark: Why Economic Espionage Works in America" The Washington Quarterly (Autumn 1996).

Samuel Porteous, "Economic Espionage: Issues Arising from Increased Government Involvement with the Private Sector" Intelligence and National Security (October 1994).

Randall Fort, Economic Espionage: Problems and Prospects.

Arthur Hulnick, "The Uneasy Relationship Between Intelligence and Private Industry" International Journal of Intelligence and Counterintelligence (Spring 1996).

### **American Economic Policy and National Security (February 22)**

Theodore H. Moran, **American Economic Policy and National Security**

### Student Briefings

Erick Kiefel and Richard Bitzinger, The Globalization of the Defense Industry: Roles and Responsibilities of the Federal Government, Defense Budget Project, 1994

Martin Shubik and Paul Bracken, "Strategic Purpose and the International Economy" in McCormick and Bissil

Klaus Knorr, "Economic Interdependence and National Security" in Knorr and Trager.

Robert Gilpin, "Economic Interdependence and National Security in Historical Perspective" in Knorr and Trager.

### **Projections of National Power (February 24)**

#### Discussion of Data Sources

Economic Analysis of Naval Forward Presence

### Student Briefings

Klaus Knorr and Frank Trager, Economic Issues and National Security (Lawrence, Kansas: Regents Press of Kansas, 1977).

Klaus Heiss, Klaus Knorr and Oskar Morgenstern, Long Term Projections of Power (Cambridge, Mass: Ballinger Publishing Company, 1973).

Richard Bissil, "The Importance of the Economic Base to National Security" in McCormick and Bissil.

Klaus Knorr, "Economic Relations as an Instrument of National Power" in McCormick and Bissil.

Jerry Theodorou, "Political Risk Reconsidered" **International Journal of Intelligence and CounterIntelligence** (Summer 1993).

### **Defense Expenditures and Related Analytical Techniques (February 29, March2)**

Robert Looney, Third World Military Expenditures and Arms Production (London: Macmillan, 1988).

Robert Looney, "Defense Expenditures and Economic Performance in South Asia: Tests of Causality and Interdependence" *Conflict Management and Peace Science* (1991).

Robert Looney and Peter Frederiksen "The Economic Determinants of Military Expenditure in Selected East Asian Countries" Contemporary South East Asia (March 1990)

Robert Looney "The Budgetary Impact of Defense Expenditures in the Middle East" The Middle East Business and Economic Review (1993)

Robert Looney and P.C. Frederiksen "Profiles of Current Latin American Arms Producers" International Organization (Summer 1986).

Robert Looney "Pakistani Defense Expenditures and the Macroeconomy: Alternative Strategies to the year 2000" Contemporary South Asia (November 1995)

Robert Looney "Defense Expenditures and Socio-Economic Development in the Middle East and South Asia: A Factor Analytic Approach" Kuwait University Journal of the Social Sciences (Autumn/Winter 1994)

### **Economic Vulnerability (March 7)**

Neil Richardson, Foreign Policy and Economic Dependence (Austin: University of Texas Press, 1978).

#### Student Briefings

Clark Murdock, "Economic Factors as Objects of Security: Economics, Security and Vulnerability" in Knorr and Trager.

Klaus Knorr, "International Economic Leverage and its Uses" in Knorr and Trager.

Cheryl Christensen, "Structural Power and National Security" in Knorr and Trager.

Stephen Krasner, "Domestic Constraints on International Economic Leverage" in Knorr and Trager.

Kenneth Kessel, Strategic Materials: U.S. Alternatives (Washington: National Defense University Press, 1990).

Robert Gilpin, "Structural Constraints on Economic Leverage: Market-Type Systems" in McCormick and Bissil.

Herbert Levene, "Structural Constraints on Economic Leverage: Command-Type Systems" in McCormick and Bissil.

David Deese, "The Vulnerability of Modern Economies" in McCormick and Bissil

### **Economic Leverage (March 9)**

Albert O. Hirschman, National Power and the Structure of Foreign Trade (Berkeley: University of California, 1969).

### Student Briefings

Philip Hanson, *Western Economic Statecraft in East-West Relations: Embargoes, Sanctions, Linkage, Economic Warfare and Détente* (London: Routledge & Kegan Paul, 1988).

Abraham S. Becker, *Economic Leverage on the Soviet Union in the 1980s* (Santa Monica: Rand Corporation, 1984).

Tor Forland, "The History of Economic Warfare: International Law, Effectiveness, Strategies" **Journal of Peace Research** (1993).

William Warner, "International Technology Transfer and Economic Espionage" **International Journal of Intelligence and Counterintelligence** (Summer 1994).

### **Economic Coercion/Sanctions (March, 14, 16)**

G. Hufbauer, J. Schott and K. Elliott, *Economic Sanctions Reconsidered: History and Current Policy*, second edition (Washington: Institute for International Economics, 1990).

G. Hufbauer, J. Schott and K. Elliott, *Economic Sanctions Reconsidered: Supplemental Case Histories* (Washington: Institute for International Economics, 1990).

Weintraub, **Economic Coercion and U.S. Foreign Policy**.

### Class Presentations

### **Final Project Briefings (March, 21, 23)**

QDR Research Findings

### **Class Grade**

There will be no formal examinations this quarter. Instead, the class will be involved in a research project—the Economic Consequences of Naval Forward Presence. This research is at initial stages and will consist of data gathering, conceptualization and perhaps some quantitative analysis. This work will be periodically briefed to the class. In addition there will be a number of briefings based on the economic intelligence literature